



MEMORANDUM

To: California Department of Veterans Affairs (“DVA”)
From: Gardner, Underwood & Bacon LLC (“GUB”)
Date: Friday, June 25, 2010
Re: Competitive Bond Sale – Veterans GO Bonds Series CF, CG & CH

On June 23, 2010, the DVA successfully sold its \$118,710,000 Veterans General Obligation Bonds, Series CF (Non-AMT), Series CG (Non-AMT) and Series CH (AMT) by using the competitive bond sale method. The Series CF and Series CH Bonds were sold to refund some the DVA’s outstanding bonds for economic savings and the Series CG Bonds were sold to provide the DVA with new proceeds. Citi was awarded the Series CF and Series CH Bonds and Goldman Sachs was awarded the Series CG Bonds by providing the bids with the lowest true interest costs. A summary of the financing results is listed below.

	Series CF	Series CG	Series CH	Total
Par Amount	\$82,725,000	\$25,000,000	\$10,985,000	\$118,710,000
Underwriter’s Discount	\$496,350	\$31,924	\$24,167	\$552,441
Proceeds	\$82,228,650	\$24,968,076	\$10,960,833	\$118,157,559
Total Debt Service	\$92,404,317	\$27,259,245	\$12,036,614	\$131,700,175
True Interest Cost	2.7884967%	2.4392231%	2.6963413%	2.7147894%
Arbitrage Yield	2.5963118%	2.5963118%	2.5963118%	2.5963118%
Average Life	4.414 Years	3.742 Years	3.628 Years	4.200 Years

In short, the DVA’s bonds priced well, especially considering the volatile market environment of the past few weeks. **Based on analysis without AB2651, DVA would have reached Net Present Value (NPV) debt service savings of approximately \$6.6 million for the CF and CH refundings. With the passage of AB2651, the actual NPV debt service savings is approximately \$8.1 million resulting in an additional yearly savings of \$1.5 million.**

It is important to note that the huge success of this bond sale would not have been possible without recent legislation that was signed by the Governor on June 15, 2010 and the financing consultants’ and DVA staff’s underwriting outreach efforts.

The following sections summarize key aspects that contributed to the success of the bond sales and the DVA achieving higher than anticipated savings.

Ratings

The DVA benefited significantly from the enactment of AB2651 – Veterans Farm and Home Purchases: Bond Acts. Fitch Ratings and Standard & Poor’s immediately upgraded the ratings of the proposed and outstanding Veterans General Obligation Bonds (the “Bonds”) due to staff’s proactive efforts at informing the ratings agencies about the legislation. Although Moody’s

Investors Service did not provide an immediate rating upgrade, the Bonds were put on a watchlist for a possible rating upgrade that is anticipated to occur in the next few weeks.

Rating Agency	Before AB2651	After AB2651
Fitch Ratings	A-	AA-
Moody's Investor Service	A1	A1
Standard & Poor's	AA-	AA

The ratings upgrades played a crucial role in lowering the DVA borrowing costs and increasing the number of bids received.

Bidders

The ratings upgrade and the DVA's outreach effort was crucial to the success of the bond sales. There was more interest in this year's bond sales than in prior bond sales. 14 underwriters expressed an interest in bidding on one or more series of bonds. Altogether 27 underwriting firms participated in the sale as the lead underwriter or a syndicate member. The high turnout and large number of bids helped to lower the DVA's interest costs.

Lead Underwriter	Series CF	Series CG	Series CH
Bank of America Merrill Lynch	Yes	Yes	Yes
Barclays Capital, Inc.	Yes	Pass	Yes
BMO Capital Markets	Pass	Pass	Pass
Citi	Yes	Yes	Yes
Goldman Sachs & Co.	Yes	Yes	Pass
Hutchinson, Shockey, Erley & Co	Pass	Pass	Yes
Jefferies & Company, Inc.	Yes	Yes	Yes
JP Morgan Securities Inc.	Yes	Yes	Yes
Morgan Stanley & Co Inc.	Yes	Yes	Yes
Piper Jaffray	Pass	Yes	Pass
Raymond James & Associates	Pass	Pass	Pass
RBC Capital Markets	Yes	Yes	Yes
Stone & Youngberg LLC	Pass	Yes	Pass
Wells Fargo Bank, N.A.	Yes	Yes	Yes
Total Bids	9	10	9

Interest Rates

The DVA received indicative interest rate scales from multiple underwriting firms prior to the sale date. This step was vital in helping the DVA to structure its bonds and served as a good pre-marketing tool. The last set of scales the DVA received was on June 11, 2010. Despite the market volatility between June 11th and June 23rd, the yields on its bonds were lower than anticipated.

	June 11, 2010 ⁽³⁾				June 23, 2010 ⁽⁴⁾		
	A-/A1/AA-		AA-/Aa3/AA-		AA-/A1/AA		
Year	Non-AMT	AMT	Non-AMT	AMT	Non-AMT	Non-AMT	AMT
2011	1.480%	1.480%	1.235%	2.073%	0.700%	0.800%	--%
2012	1.887	1.887	1.653	2.440	1.300	1.450	1.800
2013	2.300	2.300	2.080	2.843	2.250	2.200	2.500
2014	2.707	2.707	2.518	3.330	2.625	2.450	3.000
2015	3.090	3.090	2.918	3.693	2.875	2.950	3.200
2016	3.523	3.523	3.355	4.080	3.000	3.400	--
2017	3.840	3.840	3.680	4.393	3.125	3.700	--
2018	4.070	4.070	3.928	4.615	--	3.900	--

⁽³⁾Derived by taking the average of indicative scales provided by four underwriting firms.

⁽⁴⁾The final results were still lower than any of the indicative scales.